



# COMMONWEALTH OF MASSACHUSETTS Group Insurance Commission

Fiscal Year 2003 Annual Report

COMMONWEALTH OF MASSACHUSETTS

Your  
**BenefitsConnection**  
Group Insurance Commission

## GROUP INSURANCE COMMISSION

The Group Insurance Commission has as its primary mission the provision of high value life, health, and disability insurance to state employees, retirees, and their survivors and dependents. The agency works with vendors selected by competitive bidding processes to offer cost effective services through rigorous plan design and aggressive management. The ultimate performance goal of the agency is enrollee satisfaction with the choices provided, the prices paid, and the services delivered.

## THE GIC MANAGES THE FOLLOWING PROGRAMS

- ❖ A Diverse Array of Health Insurance Options
- ❖ Basic and Optional Life Insurance
- ❖ Long Term Disability (LTD)
- ❖ GIC Dental/Vision Program for Managers, Legislators, Legislative Staff and Certain Employees of the Executive Offices
- ❖ Dependent Care Assistance Program (DCAP)
- ❖ Health Care Spending Account (HCSA)
- ❖ Retiree Discount Vision Plan
- ❖ Retiree Dental Plan

*See our Benefit Decision Guides for additional details on these programs.*



*Dear Friends:*

**T**he challenges we faced in FY02 intensified dramatically in FY03. The converging trends of rising health care costs and declining state revenues translated into tough, but necessary, decisions for the Commission. Health care costs continued to climb at double-digit rates, fueled by increased consumer demand for greater choice, cutting edge technologies, and the latest drugs and provider demand for higher reimbursements. At the same time, state revenues declined rapidly, creating what many have called “a perfect storm.”

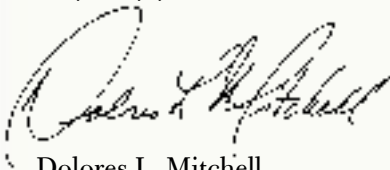
The GIC continued to do better than others in holding down skyrocketing premium trends while also doing our part towards mitigating taxpayer costs. Some of the decisions we made were painful, and enrollees were not always happy. However, we tried to spread the burden as fairly as possible, while continuing to provide comprehensive benefits.

On a more positive front, the GIC continued to forge the way to improved health care quality. Following our lead, other large New England-based employers joined Leapfrog, the coalition of large employers committed to improved patient safety. Our collective efforts paid off. By the end of calendar year 2002, all but 12 Massachusetts hospitals reported progress in the three Leapfrog patient safety measures. The GIC, in turn, provided this information to our enrollees and paid modest bonuses to our plans that increased their admissions to hospitals meeting the patient safety standards.

During FY03 the GIC went out to bid on our mental health/substance abuse program for Indemnity and PPO plan members. In the process we contracted for a better plan for members and taxpayers alike. To help members save money on out-of-pocket medical expenses, we implemented a new Health Care Spending Account. Employees can now set aside money on a pre-tax basis for such expenses as office visit and prescription drug copayments.

We hope that as you read this annual report you will conclude that we have spent taxpayers’ and enrollees’ money wisely, prudently, and for the benefit of all the citizens of the Commonwealth.

Very truly yours,



Dolores L. Mitchell  
Executive Director



# TACKLING RISING HEALTH CARE COSTS DURING A TIME OF FISCAL CRISES

## A “PERFECT STORM”

**H**ealth care premium increases continued to climb at double-digit rates in FY03. Nationally, health insurance cost increases of 12.9 percent far outpaced the rate of inflation and wage growth. While medical advances and prescription drugs have been a boon to improved quality of life, their costs have accelerated health care spending. Consumers continued to demand greater choice, fewer restrictions, and cutting edge technology. Hospital consolidations gave providers additional negotiating clout, and they were able to negotiate higher reimbursements. Government mandates and regulations and lower reimbursement rates from both Medicare and Medicaid also fueled the trend. And, an aging population increased demand for new medications and costly procedures.

At the same time, the Commonwealth was facing a fiscal crisis, with tax revenues plummeting and rainy day reserves dwindling. In October 2002 the gap between the FY03 budget and expected revenues was \$872 million. Then Governor Jane Swift exercised her constitutional authority and – among other reductions across state government - eliminated \$28.8 million from the GIC appropriation, identifying the annual reimbursement to retirees for their Medicare Part B premiums as the place to cut.

The GIC, one of the ten most expensive budget categories in FY03, did not shrink from its responsibility to help contribute to solving the state’s fiscal crisis. We implemented a series of difficult, but necessary, changes to help stem the tide of escalating expenses. When determining where to cut, we adhered to the following philosophy:

- ❖ Provide employees, retirees, and dependents with comprehensive and affordable health insurance
- ❖ Retain as many of the existing health benefits as possible
- ❖ Distribute the impact of plan changes across GIC participants in as fair a way as possible
- ❖ Be a part of the solution to the state’s fiscal dilemma

## NEGOTIATE, NEGOTIATE, NEGOTIATE

GIC Plans were required to return their rate renewals for FY04 in December of 2002. The original HMO rate requests came in at a whopping 17% increase over FY03. GIC staff, having anticipated large increases, had also requested rate quotes from plans assuming they would receive a bigger piece of the GIC pie (i.e. the GIC would eliminate one or more plans). This contingency plan was instrumental in helping lower the rate requests. The GIC went back to the negotiating table with all the plans. In the end our best deal was achieved by eliminating CIGNA, with over 5,000 enrollees. Final HMO rate increases were 12% for FY04, a sizeable decrease from the original rates requested by the HMO plans. Combined with our indemnity and PPO plans, the overall increase for GIC health insurance was less than 10%.

Harvard Pilgrim Health Care discontinued offering its Preferred 65 Medicare plan; as a result, 700 enrollees needed to select another plan during annual enrollment. Our members in Worcester County were offered a new HMO during annual enrollment. They could elect to participate in Fallon Community Health Plan’s clinic-based plan, which offers lower premiums and lower office co-pays in exchange for a selective network of providers.

This proactive strategy enabled the GIC, for the third consecutive year to fare better than national rate increase trends (*see chart on page 6*). However, like the industry as a whole, the cost increases continued at a faster clip than in years past, and we continue to search for ways to mitigate these rising costs.





## MEDICARE PART B

When Medicare was a new federal program, the GIC instituted a Medicare Part B premium reimbursement to give enrollees an

incentive to join Medicare as well as to save money for the state. This practice was continued throughout the 1990s, even though it became mandatory for eligible enrollees to join Medicare if they wanted to be covered by the GIC. This reimbursement was paid in August of each year for the previous fiscal year, once all of the GIC's bills had been paid. However, for FY02 the GIC did not have sufficient funds to pay the reimbursement in full. As a result, most retirees received a reimbursement that represented 70% of their Part B premium.

In FY03, with the state's fiscal situation deteriorating, the GIC – faced with a mid-year reduction in its appropriation due to the Governor's so-called "9C cut" – made the difficult decision to eliminate the Medicare Part B refund, which was now approaching \$30 million per year. Retirees were understandably not happy, but most were resigned to the change. GIC staff provided tremendous customer service, calmly handling many irate phone calls and letters. A GIC survey of all 50 states revealed that only two states fully subsidize their retirees' Part B premiums and only four cover even a portion of the premium.

## PRESCRIPTION DRUGS

Sizing up the political landscape, GIC staff requested and obtained better discounts and rebates from its pharmacy benefit manager, Express Scripts, for FY04. Estimated savings will run \$3.5 million for the year.

The GIC also adopted two new programs to help mitigate escalating drug costs. The first program, called Generics Preferred, provides a financial incentive for enrollees to obtain the generic version of a brand name drug. If the enrollee fills a prescription for a brand name drug for which there is a generic equivalent, the enrollee pays the generic drug copay plus the difference between the cost of the generic and the cost of the brand name drug. The second program, called Step Therapy, provides coverage for some expensive drug treatments only after safe, effective and less expensive drug treatments have been tried. Total savings of the two programs are estimated at over \$11 million over the next four years.

## FY03 ADMINISTRATIVE SHORTFALL

The administrative appropriation continued to be underfunded in FY03. In FY02, only \$650,000 was appropriated to the GIC's administrative account. For FY03, the administrative account was underfunded by \$350,000, with the appropriation representing 0.25% of the total expenditures managed by the GIC, an extraordinarily low overhead cost for a program of this size and complexity. And, for FY04, the account was underfunded again - this time by \$394,000. In each of these years, the Commission filled the breach by authorizing expenditures out of the employee trust fund, thus enabling the agency to continue to operate. However, the trust fund is being depleted and may run out by FY06 (*see chart on page 6*).





# PROGRAM NEWS



## MENTAL HEALTH AND SUBSTANCE ABUSE PROGRAM

**D**uring FY03 the GIC went out to bid for its mental health and substance abuse program for Indemnity and PPO plan members. We again selected United Behavioral Health, and in the process achieved a better product. As of FY04, enrollees have a dedicated customer service and clinical triage team, as well as a locally-based intensive case manager to coordinate care for the most complex cases. Co-payments and deductibles were brought in line with medical program benefits. The GIC removed the substance abuse inpatient admission limit and also instituted a substance abuse rehabilitation incentive program to give enrollees an incentive for completing their after-care program. The GIC was able to achieve three-year savings of \$2.7 million by switching from a self-insured to a fully-insured program.

## HEALTH CARE SPENDING ACCOUNT

To help mitigate higher out-of-pocket health care expenses, the GIC introduced a new pre-tax Health Care Spending Account (HCSA) that allows employees to set aside money on a pre-tax basis to pay for non-covered medical expenses. Eligible expenses include physician office and prescription drug copays, medical deductibles, and orthodontia and dental expenses not paid by an employee's dental plan. The program was offered during annual enrollment for the last half of the 2003 calendar year. Thereafter, open enrollment will take place in the fall along with the GIC's Dependent Care Assistance Program (DCAP).

## HIPAA

With the privacy rules of the Federal Health Insurance Portability and Accountability Act (HIPAA) going into effect April 14, 2003, the GIC staff had its work cut out. All GIC business practices needed to be evaluated to see whether the confidentiality of health-related information was protected. Gaps were identified and new procedures were put in place to ensure that enrollees' protected health information was properly safeguarded. Privacy-related policies, procedures and forms were devised and posted to the agency's website. Additionally, all enrollees in self-insured plans were mailed notices of their privacy rights and numerous vendor contracts were amended to incorporate HIPAA privacy provisions. Through tremendous staff time and effort, all GIC business practices were in compliance before the deadline.

## INDEMNITY PLAN

The GIC also went out to bid for our self-insured indemnity plan. Based on both the quality and the cost of their proposal, the GIC once again selected Unicare as the plan administrator. To help eliminate the confusion surrounding the GIC and several of our health plans, the GIC changed the name of the Indemnity Plan effective July 1, 2003. The GIC Indemnity Plan, the GIC Indemnity Plan PLUS, and the GIC Indemnity Medicare Extension (OME) Plan changed to the Commonwealth Indemnity Plan, Commonwealth Indemnity Plan PLUS, and Commonwealth Indemnity Medicare Extension (OME) Plan, respectively. These names also complement the other non-HMO GIC offering, the Commonwealth PPO.



# LEADING THE WAY FOR IMPROVED QUALITY

## IMPROVING PATIENT SAFETY

The GIC was the first Massachusetts organization to become a member of the Leapfrog Group, a coalition of employers committed to reducing hospital-based medical errors. In FY03 other large area employers, such as Verizon and Fidelity Investments, joined. Our collaborative efforts paid off. By the end of 2002, all except 12 Massachusetts hospitals reported to Leapfrog their progress of the three safety measures proven to reduce medical errors. The GIC disseminated this information to our enrollees during annual enrollment to help them with their inpatient treatment decisions.

Additionally, in accordance with our three-year patient safety-focused contract with our health plans, the GIC paid incentives to plans that increased the percentage of their admissions to hospitals that met the Leapfrog standards. A total of \$335,000 in incentive payments were paid to the GIC's HMO plans who met the goal for FY03.

## COLLABORATING WITH OTHERS

With health care challenges continuing to intensify, collaboration has become even more critical. As exemplified by the Leapfrog successes, improved quality and decreasing costs can only be achieved through all players' collective efforts - providers, purchasers, plans, and enrollees. The GIC continued its collaboration with a number of governmental and private organizations, including the Massachusetts Healthcare Purchasers Group, the Massachusetts Health Data Consortium, the Massachusetts Compassionate Care Coalition, the Massachusetts Coalition for the Prevention of Medical Errors, the Health Care Committee of the Associated Industries of Massachusetts, and the New England Employee Benefits Council.

## IMPROVING COMMUNICATION WITH STATE AGENCIES

To ensure operational consistency and accuracy, reduce inefficiencies and calls to the agency, and improve employees' benefit experience, the GIC staff devised comprehensive GIC Coordinator manuals during FY03 - one for HR/CMS Agencies and UMass, the other for Off-line Agencies. Staff reviewed, improved and stream-

lined all procedures. All forms were updated and many were eliminated. The manuals were rolled out and five training sessions were held throughout the state in conjunction with annual enrollment. Ongoing e-mail communication ensures that Coordinators and employees are kept up-to-date on GIC benefits.

## COMMUNICATING WITH OUR MEMBERS

The GIC's quarterly newsletter continued to provide the primary means of keeping enrollees abreast of benefit changes and procedures, as well as providing useful information for them to take charge of their health: exercise and arthritis, new contraceptives, sleep tips, skin cancer, and medical conditions and depression. The GIC continued to promote our Plans' disease management programs, and also kept enrollees informed of the changing health care landscape.

At the end of FY03, the GIC implemented a new web-based tool to enable enrollees to do their own research on area hospitals. The Subimo Healthcare Advisor™, provided by Unicare, enables enrollees to conduct medical condition or disease-specific hospital comparisons. The GIC website catalogue of health-related topics and links was expanded, and the addition of GIC forms and carrier Summary Plan Descriptions (SPDs) enabled our enrollees to have round-the-clock access to detailed benefit information.

The GIC's annual personalized benefit statement was enhanced, with the addition of a total estimated GIC benefit section, providing a comprehensive picture of the benefits provided to Commonwealth employees and retirees. Retiree and COBRA dental benefit information was also added to the statements.

## LOOKING AHEAD

We continue to focus on improving quality, extracting savings by giving enrollees valuable tools to take charge of their own health, and pursuing new cost saving measures in collaboration with plans and providers. FY04 will offer even greater challenges and the GIC is again positioning itself as a leader in health care quality and affordability.

# FINANCIAL REPORTS

## GROUP INSURANCE COMMISSION Statement Of Expenditures

JULY 1, 2002 - JUNE 30, 2003

| DESCRIPTION  | COMMONWEALTH  | EMPLOYEES     |
|--|---------------|---------------|
| Administration*  | \$1,977,904   | \$0           |
| State Employees and Retirees' Basic Life Insurance   | \$7,169,916   | \$1,129,746   |
| State Employees' Optional Life Insurance   | \$0           | \$18,189,438  |
| State Employees' Health Insurance **   | \$687,812,697 | \$138,830,933 |
| State Employees' Dental And Vision for Managers, Legislators, Legislative Staff and Certain Employees of the Executive Offices | \$5,070,730   | \$894,840     |
| Long Term Disability For State Employees   | \$0           | \$8,649,322   |
| Elderly Governmental Retirees' Health Insurance  | \$820,020     | \$113,066     |
| Retired Municipal Teachers' Life Insurance   | \$744,459     | \$154,884     |
| Retired Municipal Teachers' Health Insurance   | \$37,753,241  | \$6,329,786   |
| Grand Totals   | \$741,348,967 | \$174,292,015 |

\* Plus an additional \$696,877 from employees' trust funds and \$468,432 from rate stabilization reserves which were used to pay employees' salaries as well as other administrative costs such as postage, telephone and supplies. These amounts are shown on the next two statements.

\*\* Medical and prescription drug co-payments and deductibles for FY03 totaled approximately \$95.6 million.

## RATE STABILIZATION RESERVE STATEMENT

JULY 1, 2002 - JUNE 30, 2003

| RESERVE                             | BALANCE             | RECEIPTS            | EXPENDITURES | BALANCE         |
|-------------------------------------|---------------------|---------------------|--------------|-----------------|
| 7/1/02                              | 7/01/2002-6/30/2003 | 7/01/2002-6/30/2003 | 6/30/2003    |                 |
| Basic Life                          | \$782,614.94        | \$6,551.26          | \$228,404.30 | \$560,761.90    |
| Optional Life                       | \$13,367,192.76     | \$191,992.91        | \$0.00       | \$13,559,185.67 |
| Employee Health                     | \$310,206.34        | \$31,927.11         | \$240,028.57 | \$102,104.88    |
| Elderly Governmental Retiree Health | \$831,036.03        | \$8,181.76          | \$320,594.78 | \$518,623.01    |
| Retired Municipal Teacher Life      | \$88,860.11         | \$1,276.31          | \$0.00       | \$90,136.42     |
| Retired Municipal Teacher Health    | \$23,853.27         | \$342.61            | \$0.00       | \$24,195.88     |
| Total                               | \$15,403,763.45     | \$240,271.96        | \$789,027.65 | \$14,855,007.76 |



# FINANCIAL AND TREND REPORTS

## EMPLOYEES' TRUST FUND STATEMENTS

### STATE EMPLOYEES' TRUST FUND

JULY 1, 2002 - JUNE 30, 2003

|                   |                |
|-------------------|----------------|
| Balance 7/1/2002  | \$4,503,049.38 |
| Receipts          | \$60,057.01    |
| Expenditures      | (\$696,876.94) |
| Balance 6/30/2003 | \$3,866,229.45 |

### ELDERLY GOVERNMENTAL RETIREES' TRUST FUND

JULY 1, 2002 - JUNE 30, 2003

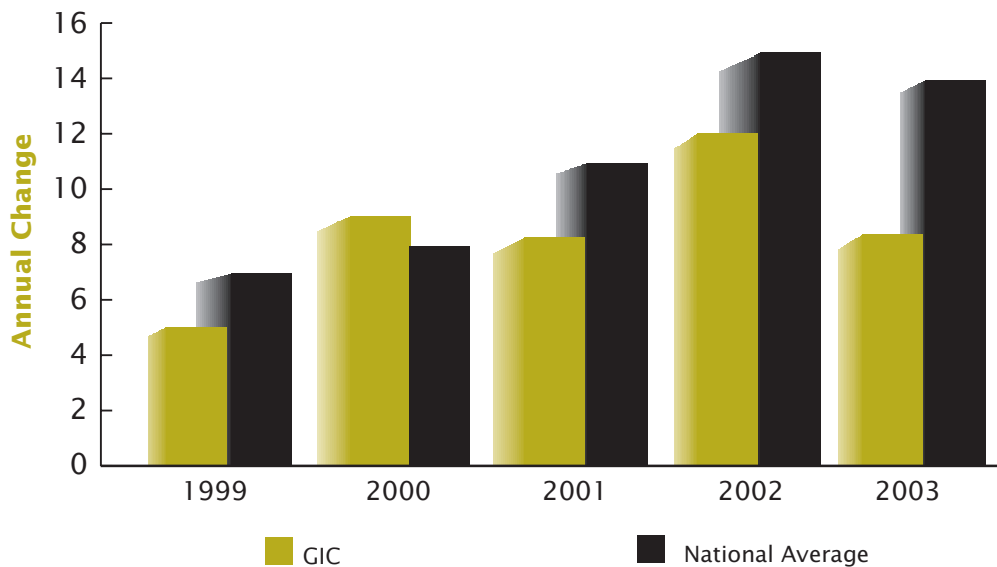
|                   |               |
|-------------------|---------------|
| Balance 7/1/2002  | \$432,363.34  |
| Receipts          | \$5,479.64    |
| Expenditures      | (\$68,699.48) |
| Balance 6/30/2003 | \$369,143.50  |

### RETIRED MUNICIPAL TEACHERS' TRUST FUND

JULY 1, 2002 - JUNE 30, 2003

|                   |          |
|-------------------|----------|
| Balance 7/1/2002  | \$427.82 |
| Receipts          | \$6.13   |
| Expenditures      | \$0.00   |
| Balance 6/30/2003 | \$433.95 |

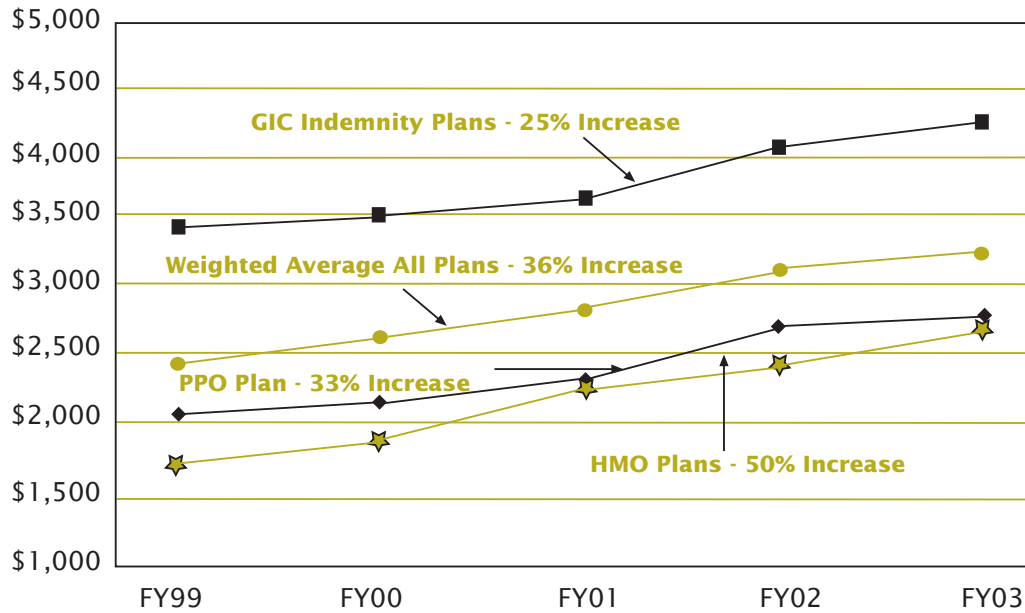
### Average Change in Health Insurance Premiums (1999-2003)



Sources: GIC Rates, Age/Sex Reports FY98 - FY03, and 2002 Mercer Human Resource Consulting National Survey of Employer Sponsored Health Plans

# TREND REPORTS

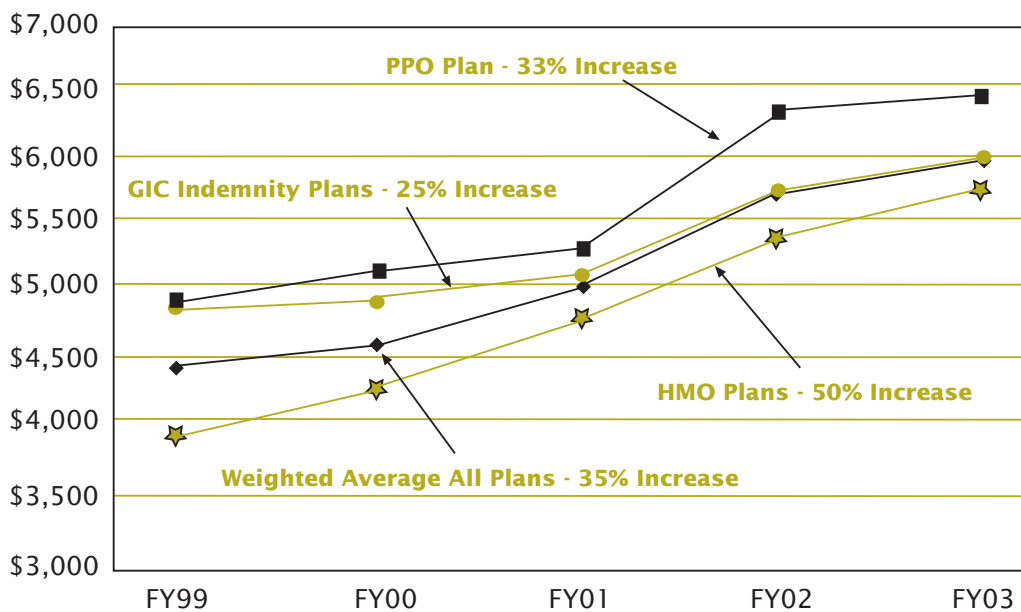
## Cost Per Capita\* (Total State and Employee/Retiree Share)



Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2003

\*Does not include EGRs and RMTs or enrollee out of pocket expenses

## Cost Per Subscriber (Enrollee)\* (Total State and Employee/Retiree Share)



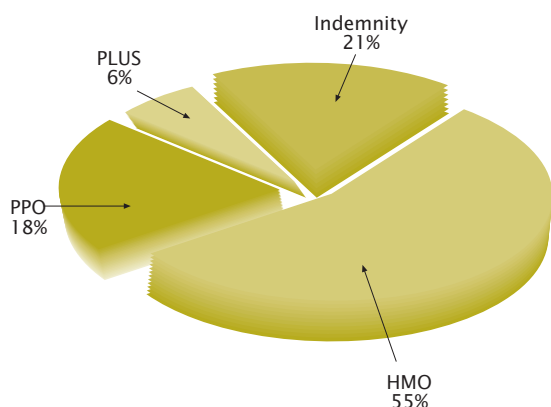
Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2003

\*Does not include EGRs and RMTs or enrollee out of pocket expenses

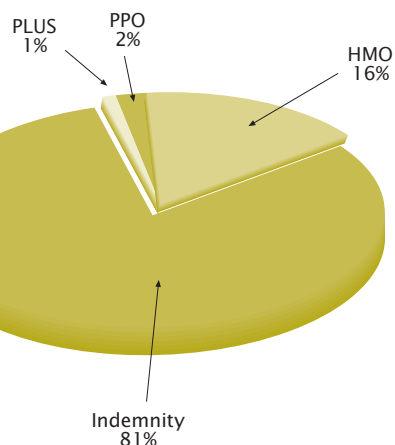


# TREND REPORTS

**Active Employees by Plan Type - FY03**



**Retirees and Survivors by Plan Type - FY03\***



Source: Pool 1 Age/Sex Composition Analysis FY03. \*Does not include EGRs and RMTs

## HEALTH PLAN MEMBERSHIP BY INSURED STATUS FY03

|                              | TOTAL   | TOTAL                 | TOTAL     | TOTAL     | TOTAL      | TOTAL   |
|------------------------------|---------|-----------------------|-----------|-----------|------------|---------|
|                              | ACTIVE* | RETIREEES & SURVIVORS | EGR & RMT | ENROLLEES | DEPENDENTS | LIVES   |
| Indemnity Plan               | 16,368  | 50,329                | 8,494     | 75,191    | 24,060     | 99,251  |
| Indemnity Plan PLUS          | 4,960   | 575                   | 0         | 5,535     | 6,153      | 11,688  |
| Commonwealth PPO             | 14,163  | 1,363                 | 0         | 15,526    | 21,489     | 37,015  |
| CIGNA                        | 4,055   | 1,627                 | 74        | 5,756     | 6,566      | 12,322  |
| Fallon Community Health Plan | 2,496   | 1,033                 | 42        | 3,571     | 3,437      | 7,008   |
| Harvard Pilgrim Health Care  | 17,729  | 4,224                 | 412       | 22,365    | 27,272     | 49,637  |
| Health New England           | 4,403   | 1,034                 | 102       | 5,539     | 6,530      | 12,069  |
| Neighborhood Health Plan     | 779     | 28                    | 1         | 808       | 876        | 1,684   |
| Tufts Health Plan            | 14,021  | 1,947                 | 315       | 16,283    | 19,776     | 36,059  |
| Total Indemnity Plan         | 21,328  | 50,904                | 8,494     | 80,726    | 30,213     | 110,939 |
| Total PPO                    | 14,163  | 1,363                 | 0         | 15,526    | 21,489     | 37,015  |
| Total HMOs                   | 43,483  | 9,893                 | 946       | 54,322    | 64,457     | 118,779 |
| TOTAL ALL                    | 78,974  | 62,160                | 9,440     | 150,574   | 116,159    | 266,733 |
| Indemnity Plan % Total       | 27%     | 82%                   | 90%       | 54%       | 26%        | 42%     |
| PPO % Total                  | 18%     | 2%                    | 0%        | 10%       | 18%        | 14%     |
| HMO % Total                  | 55%     | 16%                   | 10%       | 36%       | 55%        | 45%     |

\*Active enrollment includes enrollment figures for students over 24.

Source: Pool I Age/Sex Composition Analysis, Fiscal Year 2003 and Pool II Age/Sex Composition Analysis, Fiscal Year 2003

## COMMONWEALTH OF MASSACHUSETTS

Mitt Romney, *Governor*

Kerry Healey, *Lieutenant Governor*

## GROUP INSURANCE COMMISSION

Dolores L. Mitchell, *Executive Director*

## COMMISSIONERS

Robert W. Hungate, *Chair*

Richard E. Waring (*NAGE*), *Vice Chair*

Suzanne Bailey, *Designee for Julianne Bowler, Commissioner of Insurance*

Theron R. Bradley

Stephen B. Chandler (*Local 254, SEIU, AFL-CIO*)

Alfred A. Fondacaro, Jr.

David R. Handy

Karen Hathaway (*Council 93, AFSCME, AFL-CIO*)

Thomas A. Shields

Peter Schwarzenbach, *Designee for Eric Kriss, Secretary of Administration and Finance*

Richard J. Zeckhauser

---

COMMONWEALTH OF MASSACHUSETTS

GROUP INSURANCE COMMISSION

PO Box 8747 ♦ Boston ♦ MA 02114-8747

[www.mass.gov/gic](http://www.mass.gov/gic)

617.727.2310